

Message Text

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PAGE 01 BONN 06938 221315Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
PA-01 PRS-01 /082 W
-----230228Z 066397 /73

R 221307Z APR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7598
DEPARTMENT TREASURY
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS, EFIN, GW
SUBJECT: PROPOSED GERMAN 1978 VALUE-ADDED TAX INCREASE

REF: BONN 2151

1. FOLLOWING THE PARLIAMENTARY DEBATE ON THE GOVERN-
MENT'S 1978 TAX PACKAGE (2 PERCENTAGE POINT INCREASE IN
VALUE-ADDED TAX WITH ABOUT HALF THE REVENUE GAIN USED TO
REDUCE OTHER TAXES), FEW INFORMED OBSERVERS GIVE THE
PROPOSAL MUCH CHANCE OF PASSAGE BY THE OPPOSITION
CONTROLLED BUNDESRAT. MOST OBSERVERS FEEL THAT THE
GOVERNMENT IN EARLY SUMMER WILL BE CONFRONTED WITH A
CHOICE OF:

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PAGE 02 BONN 06938 221315Z

(A) INCREASING THE OFFSETTING REDUCTION IN OTHER
TAXES SO THAT NO NET REVENUE GAIN REMAINS
FROM THE 2 PERCENTAGE POINT VALUE-ADDED TAX
INCREASE.

(B) REDUCING THE VALUE-ADDED TAX INCREASE TO 1
PERCENTAGE POINT AND OFFSETTING THE REVENUE

GAIN COMPLETELY BY THE NOW ENVISAGED
ACCOMPANYING REDUCTIONS IN OTHER TAXES.

(C) DROPPING THE WHOLE OF THE 1978 TAX CHANGES
PACKAGE.

2. BY EARLY SUMMER, A VIABLE CHOICE MAY WELL BE ONLY
BETWEEN (B) AND (C) ABOVE, OR -- IF ECONOMIC RECOVERY
CONTINUES TO LAG -- TAX REDUCTIONS NOT OFFSET BY A
VALUE-ADDED TAX INCREASE MAY GAIN GOVERNMENT SUPPORT.

3. IN THE MEANTIME, SKEPTICISM CONTINUES TO GROW
THAT THE FEDERAL REPUBLIC WILL MEET THE 1977 GROWTH
TARGET OF 5 PERCENT IN REAL GNP. THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC EXPERTS, OLAF SIEVERT, FOR
EXAMPLE, HAS NOW PUBLICLY INDICATED THAT IN HIS
VIEW 4.5 PERCENT CONSTITUTES THE UPPER LIMIT OF REAL
GNP GROWTH THAT NOW SEEMS LIKELY FOR 1977.
STOESSEL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Control Number: n/a
Copy: SINGLE
Sent Date: 22-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Reason:
Disposition Remarks:
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